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SCA/CEN FOR M. O'MARA
DOE FOR EKIMOFF
COMMERCE FOR HUEPER

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [KZ](#)
SUBJECT: HIGH-LEVEL KASHAGAN TALKS SCHEDULED IN ASTANA FOR
JANUARY 13

Classified By: AMBASSADOR ORDWAY FOR REASONS 1.4(B) and (D)

¶1. (C) Summary: Further Kashagan negotiations are scheduled for January 13 in Astana. CEOs from all consortium members (except Total) expected to participate. Kashagan was a topic of discussion during Senator Richard Lugar's January 10-11 visit to Astana, with Ministry of Energy and Natural Resources Sauat Mynbayev expressing frustration with ExxonMobil, KazMunayGas First Vice President Maksat Idenov still optimistic on chances for a resolution, and Prime Minister Masimov reserved. ExxonMobil's country representative for Kazakhstan told the Ambassador on January 11 that ExxonMobil does not plan to change its position. End Summary

¶2. (C) CEOs from Eni, ExxonMobil, ConocoPhillips, Impex, and Shell are expected in Astana on January 13 for the latest round of Kashagan negotiations. (Total will be represented by chairman.) According to ExxonMobil Kazakhstan's Government Relations and Public Affairs Director Patricia Graham, each CEO will meet separately with Ministry of Energy and Natural Resources Sauat Mynbayev before a group meeting with Prime Minister Karim Masimov.

¶3. (C) Kashagan was a subject of conversation during Senator Richard Lugar's January 9-11 trip to Kazakhstan (see septel for a more detailed description of the Senator's meetings). Prime Minister Masimov noted that ExxonMobil was the remaining obstacle but otherwise did not comment on the prospects of a negotiated settlement. Energy Minister Mynbayev told the Senator that Kazakhstan "has exhausted all of its flexibility on Kashagan." January 13-14 will be the final negotiations, he said, and then Kazakhstan will decide whether to continue to work with the consortium (Comment: Mynbayev gave no hint of contemplated next steps if the next round of negotiations fail. Local media on January 11 quoted an unnamed source "close to the talks" who said that Kazakhstan is considering termination of the Production Sharing Agreement (PSA)). Mynbayev placed the blame on ExxonMobil, saying that ExxonMobil and Kazakhstan have not been able to agree upon the value of an increased stake for KazMunayGas (KMG). Aside from the dispute with ExxonMobil, all sides are in agreement on all issues, claimed Mynbayev.

¶4. (C) Maksat Idenov, KMG First Vice-President and Kashagan lead negotiator, told Senator Lugar that he is still optimistic on chances for a resolution. Idenov did not spare the consortium of criticism, calling it dysfunctional and describing frequent disagreements among the parties. He explained to the Senator in some detail the reforms he

believes are needed within the consortium and which he claimed are largely agreed upon. Like Mynbayev, Idenov was critical of ExxonMobil's approach to calculating the fair-market value of KMG's increased stake. Nevertheless, he said that Kazakhstan wants to keep the consortium together and could not see the prospect of "excluding" any current consortium members. In response to a question from a delegation member, Idenov stated that Kazakhstan has never threatened to apply the sub-soil use law against the consortium. He also noted that he has approved the next operating budget for Kashagan.

5.(C) Graham told the Ambassador on January 11 that ExxonMobil will not change its position. ExxonMobil is a world-wide operation, she said, and cannot afford to create a precedent in Kazakhstan that will affect it elsewhere. She said that progress has been made on other issues, but not on the question of establishing the fair market value of an increased ownership share for KMG. Graham indicated that ExxonMobil does not have any new ideas to offer and she expects "tough negotiations."

¶6. (C) Comment: The sides in the Kashagan dispute have made some progress, and Kazakhstan's decision to approve the next operating budget is positive. Nevertheless, with Kazakhstan and ExxonMobil at loggerheads, we do not expect this weekend's negotiations to yield a final result, and we are not yet ready to give credence to rumors of breaking the PSA as anything more than another bargaining tactic. Ultimately, as Idenov confirmed, none of the consortium members are willing to sell any of their interests (except to grant KMG a larger share), or to walk away from an asset that has considerable impact on each company's proven reserves. The GOK needs a capable operator, and breaking the current contract would create a situation that would further delay the project, raise costs, and create a grave risk to its

viability, particularly if ExxonMobil or any other member took the matter to the courts or arbitration. End Comment

¶7. (U) Senator Lugar has not cleared this cable.

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